SOURCE: Richard Vedder, "State and Local Taxation and Economic Growth: Lessons for Federal Reform," *Joint Economic Committee of Congress*, December 1995, page iv.

SENATE TAXATION
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EXECUTIVE SUMMARY

The experience of the states over the past third of a century provides a unique laboratory for investigating the effects of tax policy on economic growth. States vary widely in the method and magnitude by which they raise revenues, and this paper examines the resulting effects on economic well-being within states.

Through a comprehensive statistical analysis, this study concludes that higher state and local taxes had a distinct and significant negative effect on personal income growth over the period extending from 1960 to 1993. That is, when state and local taxes were raised, personal income growth slowed markedly. By the same token, states with lower taxes enjoyed substantially higher personal income growth.

Key findings include:

- Relatively low-tax states grew nearly one-third faster than high-tax states. This difference in growth rates translates into higher income of about $2,300 per person or $9,000 for a family of four for people living in low-tax states compared to those living in high-tax states.
- On average, an increase in state and local tax burdens equal to one percent of personal income lowered income growth by over three and a half percent. Since states raised tax burdens by an average of nearly two percent of personal income over this period, an average family of four lost almost $2,900 in income.
- Income taxes have a particularly adverse impact on income growth. Had a representative state kept its level of income taxation at the same share of personal income over the course of this study, personal income in that state would be over 30 percent greater today.
- Flat-rate income taxes are significantly more favorable to economic growth than progressive taxes. Personal income in flat-rate income tax states grew about 25 percent faster than did personal income in states with a progressive rate structure.